

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6354

BILL NUMBER: SB 70

NOTE PREPARED: Dec 15, 2008

BILL AMENDED:

SUBJECT: Taxation of Military Retirement Benefits.

FIRST AUTHOR: Sen. Delph

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X GENERAL
DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill increases the Adjusted Gross Income Tax deduction for military retirement or survivor's benefits from \$5,000 to \$10,000 beginning in 2009, \$15,000 beginning in 2011, and \$25,000 beginning in 2013. It provides a total exemption beginning in 2015.

Effective Date: January 1, 2009 (retroactive).

Explanation of State Expenditures: The Department of State Revenue will incur additional expenses to revise tax forms, instructions, and computer programs to reflect the tax deduction phase-in. The Department's current level of resources should be sufficient to implement this change.

Explanation of State Revenues: *Summary* - The bill would reduce Adjusted Gross Income (AGI) Tax liabilities of individual taxpayers who receive retirement benefits, including surviving spouses. The deduction phase-in and potential revenue loss due to the increase in the deduction is summarized in the table below.

The deduction increase begins in tax year 2009, thus, the fiscal impact of the phase-in will commence in FY 2010. Once the full deduction is phased in, the revenue loss could increase by 2% to 2.5% per year. All revenue from the AGI Tax on individuals is deposited in the state General Fund.

Tax Year	Fiscal Year	Maximum Deduction	Additional Revenue Loss
2009	2010	Lesser of \$10,000 or retirement or survivor's benefits	\$2.9 M - \$3.1 M
2010	2011	Lesser of \$10,000 or retirement or survivor's benefits	\$3.0 M - \$3.1 M
2011	2012	Lesser of \$15,000 or retirement or survivor's benefits	\$5.2 M - \$5.6 M
2012	2013	Lesser of \$15,000 or retirement or survivor's benefits	\$5.3 M - \$5.7 M
2013	2014	Lesser of \$25,000 or retirement or survivor's benefits	\$7.5 M - \$8.1 M
2014	2015	Lesser of \$25,000 or retirement or survivor's benefits	\$7.7 M - \$8.3 M
2015	2016	100% of retirement or survivor's benefits	\$7.8 M - \$8.5 M

Background Information - In 2006, 38,440 taxpayers claimed deductions totaling \$76.2 M for eligible military income. The maximum deduction at that time was \$2,000. P.L. 144-2007 increased the maximum deduction from \$2,000 to \$5,000, and provided a full deduction for active duty pay to National Guard and Reserve personnel who are mobilized. These changes went into effect for tax years beginning in 2008. Based on these changes, the revenue loss from the current deduction limits is estimated to be approximately \$8.2 M to \$8.9 M in FY 2010. [The revenue losses attributable to this bill are provided in the table above and are in addition to the revenue losses which are occurring under the current deduction limits.]

Because the estimates provided above are based upon average pension benefits, the actual revenue loss may be less than projected to the extent that some personnel receive less than the average.

Explanation of Local Expenditures:

Explanation of Local Revenues: Because the increase in the deduction would serve to decrease taxable income, counties imposing local option income taxes could potentially experience a significant decrease in revenue from these taxes.

State Agencies Affected: Department of State Revenue.

Local Agencies Affected: Counties with local option income taxes.

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